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Ex 7
EXPLANATION OF REDUCED PREMIUM PLAN FOR WHEAT.

This explanation outlines the reduced premium plan and the method for beginning the building up on the necessary records. The plan in general provides that if, after a period of consecutively insured wheat crops, the accumulated balance of premiums paid by the insured, less indemnities collected during such period, exceeds the insured production for 1943 or any subsequent year, the annual premium would be reduced by 50 percent.

Eligibility for reduction in premium will be determined on a personal experience basis rather than on a farm basis because of the importance of personal ability in producing crops, and fairness to tenants and owners who shift their operations from farm to farm.

The plan in its simplest form is explained by the illustration given below:

Crop Year	Crop Ins. Appl.No.	ACP Farm or Worksheet No.	Insured Production	Premium	Indemnity	Accumulated Balance
1939	20	100	490	135	0	135
1940	18	100	510	145	45	235
1941	13	100	500	140	0	375
1942	31	100	520	150	0	525
1943	84	100				

This farmer has had insurance for four consecutive years beginning with the 1939 crop. He had one loss in that four-year period, but his accumulated balance of premiums over indemnities at the end of the four years amounted to 525 bushels. Let us assume that his insured production for 1943 is 500 bushels, a figure not materially different from his average insured production for past years. Since his accumulated balance is greater than his insured production, his premium computed in the regular manner would be reduced by 50 percent.

In order to administer this plan for reduced premiums it will be necessary to prepare records similar to the above illustration, for persons who have carried crop insurance. Since the adoption of this plan will in many cases have an important influence on whether an individual applies for crop insurance in 1943, the work on the preparation of these records should be started immediately in some counties. In counties where this plan will not have material influence on the 1943 program because persons in the county could not obtain reduced premiums for several more years, the work of building up these records may be deferred until such time as is convenient but it should be done within the next year. However, attention should be directed to this plan when presenting the program, as a break in continuity of insurance will affect the application of the plan in future years. More specific instructions regarding the preparation of these records are contained in the procedure provided for this purpose.

One of the features of this plan is that the period covered in determining the accumulated balance must be one of continuous participation except for years when no wheat was seeded. The computation of the accumulated balance will begin with the first crop year of consecutively insured wheat crops. To make the plan equitable for those persons who have insured in the past, the record will be made retroactive.

In calculating the accumulated balance of premiums, less indemnities, a negative balance at the end of any year will be disregarded and the balance carried as "0." The purpose of this provision is to provide that no individual who has participated in the program shall be placed at a disadvantage compared to the producer who insures for the first time.

This plan does not provide for a reduction in premium, even though the accumulated balance does exceed the 1943 insured production, when such excess is caused by a substantial decrease in the insured production rather than the accumulation of a larger balance. Therefore, a person will be eligible for a 50-percent reduction in premium only if he would also be eligible if his 1943 insured production had been at least 90 percent of his average insured production. An illustration of the application of this phase of the plan is given in case 3 below.

The Corporation reserves the right to adjust the accumulated balance downward if the insured production is reduced, due to changes in acreage, percent interest in the crop, practice, insured percentage, or other cause.

In the event that the accumulated balance of premiums over indemnities for prior years is not equal to the insured production, but would be greater than the insured production if the premium for the current year were added, the 50-percent reduction will apply only to that part of the current premium in excess of the amount needed to bring the balance up to the insured production. Illustrations of this are shown in cases 2 and 4 below.

Where the insured production is increased for any reason such as an increase in acreage, change in practice, interest in the crop, or insured percentage, the only effect will be to delay the application of the reduction in premium until a sufficient balance to cover the larger insured production is accumulated. In other words, the total insured production for the current year will be compared to the balance accumulated in previous years.

In the event an insured has had a reduction in premium and claims a loss in such year, the amount of the reduction in premium will be deducted from the loss claimed, provided the loss claimed is equal to or in excess of the amount of the reduction in premium. In the event the indemnity that would otherwise be due is less than the reduction in premium and a loss is claimed, no indemnity will be paid and the insured will not be obligated for any part of the reduction in premium not recovered.

Detailed instructions as to the application of this plan will be outlined in the procedure for the preparation of acreage reports. The following illustration and cases will explain the application of this plan in practically all instances that may arise.

INSURANCE RECORD

Crop Year	Crop Ins. Appl. No.	ACP Farm or Worksheet No.	Insured Production	Premium	Indemnity	Accumulated Balance
1939	20	10	800	265	300	0 *
1940	{ 14 15 **	10 361	{ 750 700	{ 290 260	{ 0 0	550
1941	{ 31 32 **	10 361	{ 700 600	{ 255 250	{ 0 0	1055
1942	54	180	450	200	155	1100
1943	19	160				
Average 1000 **						

NOTE: * In 1939 the excess of indemnities over premiums was 35 bushels but a "zero" was used instead of a negative figure in the accumulated balance column.

** In those years where more than one farm is insured, all farms are to be used in compiling records. The average annual insured production is determined by dividing the total of the insured production column by the number of years and not by the number of entries in the column.

Case 1. 1943 Insured Production ... 950 bushels
1943 Full Premium 200 bushels

Since the accumulated balance (1100 bushels) exceeds the 1943 insured production (950 bushels), the premium would be reduced to 100 bushels, which is 50 percent of the full premium of 200 bushels.

Case 2. 1943 Insured Production... 1,200 bushels
1943 Full Premium..... 310 bushels

Since the accumulated balance at the end of 1942 (1100 bushels) lacks 100 bushels of equaling the 1943 insured production (1200 bushels), then 100 bushels of the 1943 premium is needed to build the accumulated balance up to the 1943 insured production and is not subject to reduction. By applying the reduction factor to the balance of the 1943 premium (210 bushels times 50 percent equals 105 bushels) and adding to this the 100 bushels which is not eligible for reduction, the result (205 bushels) would become the reduced premium for 1943.

Case 3. 1943 Insured Production ... 540 bushels
1943 Full Premium..... 140 bushels

In this case, the 1943 insured production is less than 90 percent of the average insured production as shown in the insurance record above (90 percent of the average insured production equals 900 bushels). The accumulated balance of 1100 bushels is greater than 900 bushels and consequently the 50 percent reduction would apply and the reduced premium would be 70 bushels.

Case 4. Assume the accumulated balance is 800 bushels instead of 1100 bushels as shown in the insurance record above.

1943 Insured Production ... 720 bushels
1943 Full Premium..... 200 bushels

In this case, the 1943 insured production is less than 90 percent of the average insured production as shown in the insurance record and is 80 percent of 90 percent of this average insured production. By applying this adjustment factor of 80 percent to the accumulated balance (800 bushels) we arrive at an adjusted balance of 640 bushels at the end of 1942. Since this adjusted balance (640 bushels) lacks 80 bushels of equaling the 1943 insured production (720 bushels) then 80 bushels of the 1943 premium is needed to build the adjusted accumulated balance up to the 1943 insured production and is not subject to reduction. By applying the reduction factor to the balance of the 1943 premium (120 bushels times 50 percent equals 60 bushels) and adding to this the 80 bushels which is not eligible for reduction, the result (140 bushels) would become the reduced premium for 1943.

Under this plan for reduced premium the accumulated balance built up by an individual should never be considered as a reserve belonging to the individual but merely a figure used to determine whether or not he should be granted a reduced premium or what the amount of the reduced premium would be.

The reduced premium plan will give to the farmer who believes that his premium rate is too high an opportunity to come into the program and demonstrate, if he can, that he is entitled to lower premiums. If he cannot demonstrate it, he should be convinced that the premium rate is not too high.

The reduced premium plan will tend to bring into the program and keep in the program those farmers who are most likely to continue to produce with only small losses. It will encourage continued participation and consequently avoid one cause of adverse selection of risks. The plan for reduced premium for farmers who have had small losses is sound insurance practice, and, properly administered, will be a valuable addition to the crop insurance program.

COUNTY PROCEDURE FOR PREPARING THE INSURANCE
RECORD FOR THE REDUCED PREMIUM PLAN
FOR WHEAT CROP INSURANCESECTION I. GENERAL

For the purpose of the reduced premium plan, data should be compiled by the county committee for the county in which the application will be filed under the 1943 Wheat Crop Insurance Program. This record shall be compiled on a personal basis, rather than on a farm basis. The county committee should study carefully the "Explanation of Reduced Premium Plan" before any steps are taken to accumulate the data.

SECTION II. PREPARATION OF FORM FCI-25-W,
"INSURANCE RECORD"

A supply of Forms FCI-25-W, "Insurance Record," shall be mimeographed in the office of the county committee, or furnished by the state committee. The entries inserted on the insurance record shall be made in ink or by typewriter and, consequently, the form shall be mimeographed on a quality of paper that will permit the use of either ink or typewriter.

Since the reduced premium plan is to be retroactive, it will be necessary that the county committee prepare an insurance record for each individual who (1) held a wheat insurance contract on his 1942 crop, or (2) if no wheat was seeded in 1942, held a wheat insurance contract for the last year previous to 1942 in which wheat was seeded.

An insurance record sheet should be started for each individual showing first the name of the insured person, the address, and the 1943 crop insurance application number, which will become the permanent code number. If the 1943 application has not been filed at the time that the insurance record is prepared by the county committee, the space provided for such code number shall be left blank until the application is filed, or the 1943 application number is assigned. Since, in reviewing cases for reduced premiums on the basis of these records, the name of the individual will be the main identification, careful attention should be given to the name, using the customary first name or initials. In the event the name has been changed by marriage, divorce, or any other manner, a notation to that effect should be entered at the top of the record.

The crop insurance history of the individual will be entered on this record for only the consecutively insured crops that are to be used in determining the accumulated balance of premiums over indemnities.

Therefore, the crop insurance files for 1941, 1940, and 1939 should be reviewed to determine the years in which the individual carried insurance continuously except for those years when no wheat was seeded. If it is found, for example, that the individual had insurance in 1941 but not in 1940, it will not be necessary to check the records for 1939. In other

words, this individual's record would begin with 1941. If wheat was not seeded in any year, including the year 1942, the continuous record will not be considered broken. Moreover, it is not necessary for the crop years 1939, 1940 and 1941, that all farms on which the insured had an interest in the wheat crop be insured, but merely that insurance was in effect on some wheat crop of the insured. Data from the 1942 acreage report should be entered on the insurance record at the time of its preparation, and loss data as soon thereafter as any indemnity has been approved by the branch office.

The data for each of the columns shall then be entered beginning with the first year of continuous participation. One line should be used for each contract prior to 1942. Since in the 1939, 1940, and 1941 programs a separate application was used for each farm, it will not be necessary to enter the ACP farm or worksheet number for those years unless the county committee desires to do so for further identification purposes. For 1942 and consecutive years, one line shall be used for each listing sheet farm covered under the contract.

If it is determined from available sources in the county office that the individual did not seed wheat in one or more of the years, and was not insured because of that fact, the words "No Wheat Seeded" shall be recorded on the applicable line of the insurance record.

Any cases of delayed settlements or uncollectible premiums appearing on the register of indebtedness for years prior to the most recent year should be reviewed carefully by the county committee. In these cases the insured's record should be considered incomplete and a reduction in premium will not be allowed until such time as the amount of the indemnity has been determined, or the register of indebtedness has been cleared.

After the data have been recorded through 1942, the accumulated balance should be computed by subtracting the indemnities from the premiums for the first year and the balance entered in the accumulated balance column. If the indemnities exceed the premiums, a "zero" should be entered. To compute the accumulated balance for any subsequent year, the premiums should be added to the accumulated balance for prior years and the indemnities subtracted therefrom. If the result of the computation to determine the accumulated balance is negative, a "zero" should be entered. In those cases where more than one farm is included in the record for any year, the accumulated balance should not be computed after each entry on the sheet, but only on the line of the last entry for the year by adding to the accumulated balance for prior years, the total premiums on all farms, and subtracting the total indemnities on all farms.

If it appears that the individual may be entitled to a reduced premium in 1943, the county committee should determine the average insured production by totaling all the entries in column D and dividing this sum by the number of years used in building the record (including those years when no wheat was seeded). These totals and averages should not be entered in ink on the insurance record.

In building up the insurance record for individuals, some problems may arise regarding the inclusion of farms not physically located in the county, but for which the insurance will be written in the county for 1943 and subsequent years. Section I of the 1943 Wheat Crop Insurance Regulations shall be used as a guide in determining the farms or insurance units which should be included on the insurance record. This section of the regulations is as follows:

"Section 1.--An application for insurance may be made by any person who has an interest as landlord, owner-operator, tenant, or sharecropper in a wheat crop. Such application shall be made on a form prescribed by the Corporation for such purpose. The application shall cover all insurance units in the county in which the application is filed and in which the applicant has an interest in the crop as landlord, owner-operator, tenant, or sharecropper at the time of seeding in any of the three years specified in the application, and the insurance units so covered shall include (1) all insurance units physically located in such county, or considered as located in such county for the purpose of establishing the average yield and premium rate, and in which the applicant has an interest in the crop as landlord, owner-operator, tenant or sharecropper, (2) all insurance units in adjoining counties in which the applicant has an interest in the crop as owner-operator, tenant, or sharecropper, provided the applicant is an operator of an insurance unit in the county where the application is filed, and (3) all insurance units in other counties in which the applicant has an interest in the crop as owner-operator, tenant, or sharecropper, and considered for the purpose of the Agricultural Conservation Program as located in the county in which the application is filed. The insurance shall attach at the time of the seeding of the wheat crop. Applications shall be submitted to the office of the county committee on or before the closing date established by the Corporation for the county in which the insurance unit is located."

If the insurance contract was transferred to an individual other than the original insured and the transferee paid the premium, the data for such year should be entered on the insurance record of the transferee and not of the transferor. If the transferor paid the premium, the data should be entered on his record. Death of the individual will break the continuity of the record, and insurance carried by heirs or by the estate or by other members of the family, even on the same farm, shall not be deemed continued participation.

For the determination of the farm or insurance units covered by applications executed by individuals, fiduciaries, or persons acting in a representative capacity, the instructions outlined in subsection M of section I of Form FCI-11-W, "County Application Procedure," shall be followed.

State and county code

Permanent code number

Name of the Insured

Address

INSURANCE RECORD

[illegible]